

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
The HELP II Program
EXECUTIVE SUMMARY

Applicant:	Fellowship Homes dba Casa de Modesto ("FH") 1745 Eldena Way Modesto, California Stanislaus County	Amount Requested: \$400,000	Requested Loan Term: 15 years
		Date Requested: July 25, 2002	Resolution Number: HII-123
Project Site:	1745 Eldena Way, Modesto, California		
Facility Type:	Skilled Nursing, Residential Care, and Senior Housing		
Policy Issue: Since Cal-Mortgage encumbers the property to be renovated as collateral for a 1996 CHFFA bond issue, the Authority cannot be in 1 st lien position as normally required under the HELP II Loan Program guidelines. However, staff recommends approval for the reasons outlined on the following page.			
Use of Loan Proceeds: Loan proceeds will be used to construct a new kitchen area.			
Type of Issue:	HELP II Loan		
Prior HELP II Borrower:	No		
Existing Borrower:	1996 Series A Revenue Bonds		
Financial Overview: Despite slight operational losses, FH has maintained profitability through interest earnings and donations. Although the organization is leveraged, the balance sheet is otherwise strong with net assets remaining over \$2 million.			
Sources of Revenue:	<u>Amount</u>	<u>Percent</u>	
<i>(FYE 12-31-01)</i>			
Skilled Nursing	\$2,534,985	53%	
Residential	1,020,610	21%	
Apartments	652,482	14%	
Casitas	435,956	9%	
Ancillary	109,422	2%	
Other	<u>66,480</u>	<u>1%</u>	
Total Support and Revenue	<u>\$4,819,935</u>	<u>100%</u>	
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$400,000	Construction costs	\$566,100
Borrower's Funds	392,100	Purchase equipment	220,000
		Financing costs	<u>6,000</u>
Total Sources	<u>\$792,100</u>	Total Uses	<u>\$792,100</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for Fellowship Homes in an amount not to exceed \$400,000 for a term of 15 years subject to the standard HELP II loan provisions and Cal-Mortgage consent for the Authority's 2 nd lien position.			

STAFF SUMMARY AND RECOMMENDATION
Fellowship Homes (“FH or the center”)

July 25, 2002
Resolution Number: HII-123

POLICY ISSUE: HELP II Loan Program guidelines provide that the Authority take a 1st lien position on financed property. In 1996, Fellowship Homes issued \$6,065,000 in debt through the Authority to advance refund its 1989 revenue bonds with credit enhancement through Cal-Mortgage. The original bonds were issued to finance the construction of additional senior housing apartments and to make needed improvements to the existing facility. Cal-Mortgage currently encumbers the property as collateral for the guarantee, and additionally must approve any additional debt that Fellowship Homes wishes to incur. As such, the Authority can only have a second lien position on the property being financed, in addition to a lien on corporate gross revenues subordinate to Cal-Mortgage. Staff recommends an exception to the HELP II policy due to the low combined loan-to-value of 57% (based on the estimated property value), the 1st position being CHFFA issued debt, and the Applicant providing close to 50% of the funding.

I. PURPOSE OF FINANCING: FH intends to use loan proceeds to build a new kitchen area. The original existing kitchen was built in 1965, and was designed to serve a population of 111. FH currently provides meals to approximately 200 people. The updated kitchen will allow FH to expand and improve its food service program that meets the needs of its clients.

Construction.....**\$566,100**

The proposed new kitchen will be a free-standing building of approximately 1,800 square feet next to the existing residential facility. It will contain a walk-in freezer and refrigerator boxes, food storage area, banquet storage, a scullery, pots and pans washing area, food preparation areas and food serving areas. The project will include a new transformer for the electrical service, which will support the new kitchen. Once the project is complete, the existing kitchen will be dismantled and the space used for additional dining.

The anticipated completion date of the project is March 2003. Approximately 51% of the total cost of the project will be funded with the proposed HELP II loan, with the Applicant providing the remaining project funds. FH has benefited from strong community support by raising over \$174,000 in contributions to date. The current assessed value of the existing facility and property is \$9,926,758.

Equipment purchases**220,000**

The estimated equipment purchases include a new refrigeration unit, walk-in cooler, cooking ranges, dishwasher system, fire protection system, plumbing fixtures, work tables, shelving, cabinets, drawers, and other storage as well as installation costs.

Financing Costs **6,000**

Authority Closing Fee..... 5,000
Estimated Closing Costs 1,000

Total.....\$792,100

Financing structure:

- 15-year loan term, fully amortized.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of approximately \$33,144).
- Total interest payments of approximately \$97,219.
- Second position Deed of Trust on property located at 1745 Eldena Way, Modesto, CA.
- Combined loan to value ratio must not exceed 95%.
- Subordinate lien on corporate gross revenues, second to Cal-Mortgage Insurance.
- Verification of receipt of all permits necessary to begin construction.
- Verification that Guaranteed Maximum Price Construction Contract is in place.

[Intentionally Left Blank]

II. FINANCIAL STATEMENTS AND ANALYSIS:

**FELLOWSHIP HOMES
dba CASA de MODESTO
STATEMENT OF ACTIVITIES**

	Four Month Period Ended April 30,	For the year ended December 31		
	2002 (Unaudited)	2001	2000	1999
Operating Revenue				
Skilled Nursing	\$ 897,481	\$ 2,534,985	\$ 2,386,786	\$ 2,193,237
Residential	358,170	1,020,610	951,035	935,418
Casitas	137,586	435,956	377,184	410,632
Apartments	225,655	652,482	624,586	603,260
Ancillary	15,758	109,422	84,608	36,508
Other Operating	20,930	66,480	58,241	56,110
Total Operating Revenues	<u>1,655,580</u>	<u>4,819,935</u>	<u>4,482,440</u>	<u>4,235,165</u>
Net Assets Released From Donor Restrictions	-	2,340	9,499	2,744
Total Revenue	1,655,580	4,822,275	4,491,939	4,237,909
Departmental Expenses				
Nursing	546,444	1,481,578	1,373,113	1,298,760
Plant Operation & Maintenance	131,760	396,616	357,644	350,001
Housekeeping	86,788	266,531	272,080	253,733
Dietary	206,848	608,352	580,982	559,382
Social Services	20,955	57,788	52,061	41,131
Activities	63,715	181,415	169,515	134,283
Administration	203,157	581,459	526,193	475,863
Residential	77,926	221,781	209,999	206,379
Casitas	110,604	311,990	296,856	278,933
Total Departmental Expenses	<u>1,448,197</u>	<u>4,107,510</u>	<u>3,838,443</u>	<u>3,598,465</u>
Income From Operations Before Property Expenses	207,383	714,765	653,496	639,444
Property Expenses				
Depreciation	120,088	370,252	359,439	336,285
Bond Interest	102,035	311,546	319,279	326,586
Bond Insurance	8,846	27,103	27,919	28,719
Property Insurance	20,903	52,474	42,454	39,416
Other	1,340	7,368	7,910	8,529
Total Property Expenses	<u>253,212</u>	<u>768,743</u>	<u>757,001</u>	<u>739,535</u>
Loss From Operations	(45,829)	(53,978)	(103,505)	(100,091)
Non-Operating Revenue (Expenses)				
Bond Interest	3,770	27,325	40,370	32,834
Other Interest & Dividends	17,689	81,579	87,304	71,584
Donations & Memorials	28,733	153,067	142,345	36,483
Auxiliary Activity	-	(6,996)	(6,066)	1,940
Other	7,160	(17,204)	(3,962)	(2,399)
Gain or (Loss) from Investments	-	(49,557)	(97,650)	83,995
Increase In Unrestricted Net Assets	11,523	134,236	58,836	124,346
Unrestricted Net Assets Beginning of Year	<u>2,330,655</u>	<u>2,196,419</u>	<u>2,137,583</u>	<u>2,013,237</u>
Unrestricted Net Assets, End Of Year	<u>\$ 2,342,178</u>	<u>\$ 2,330,655</u>	<u>\$ 2,196,419</u>	<u>\$ 2,137,583</u>

**FELLOWSHIP HOMES
dba CASA de MODESTO**

STATEMENT OF FINANCIAL POSITION

	As of <u>April 30</u>	As of December 31		
	<u>2002</u> (Unaudited)	<u>2001</u>	<u>2000</u>	<u>1999</u>
ASSETS				
Current Assets:				
Cash & Cash Equivalents	\$ 251,575	\$ 717,232	\$ 318,527	\$ 364,704
Accounts Receivables, net	86,996	85,689	105,592	108,666
Inventory	16,732	16,732	12,535	16,972
Prepaid Expenses	54,646	85,069	67,512	66,449
Accrued Interest Receivable	1,042	1,041	3,421	2,516
Total Current Assets	<u>410,991</u>	<u>905,763</u>	<u>507,587</u>	<u>559,307</u>
Property, plant and equipment, net	4,886,768	4,923,301	5,192,748	5,221,300
Other Assets:				
Capital Replacement Fund	154,829	135,513	76,579	19,903
Bond Reserve Account	488,628	488,627	489,099	489,099
Other Bond Accounts	264,597	214,296	256,470	252,742
Investments	1,795,741	1,408,483	1,412,068	1,555,641
Charitable Gift Annuity	73,036	73,036	104,000	137,022
Bequests Receivable	5,000	5,000	71,600	-
Total Other Assets	<u>2,781,831</u>	<u>2,324,955</u>	<u>2,409,816</u>	<u>2,454,407</u>
Deferred Bond Issue Costs, net	<u>126,874</u>	<u>129,314</u>	<u>136,634</u>	<u>143,953</u>
Total Assets	<u><u>\$ 8,206,464</u></u>	<u><u>\$ 8,283,333</u></u>	<u><u>\$ 8,246,785</u></u>	<u><u>\$ 8,378,967</u></u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	\$ 72,982	\$ 139,023	\$ 92,137	\$ 100,814
Accrued Payroll & Related Expenses	319,590	288,684	259,453	248,338
Accrued Interest Payable	50,077	100,693	103,413	105,919
Workmen's Comp Insurance Payable	6,340	11,762	17,405	13,724
Tenant Security Deposits	44,161	41,120	35,690	26,790
Current Portion of Bonds Payable	180,000	180,000	170,000	160,000
Current Portion of Annuity Payable	2,749	2,749	3,704	4,628
Current Portion of Capital Lease	4,405	4,405	2,411	6,789
Total Current Liabilities	<u>680,304</u>	<u>768,436</u>	<u>684,213</u>	<u>667,002</u>
Long term debt:				
Bonds Payable, less Current Portion	5,083,261	5,082,459	5,260,050	5,427,642
Annuity Payment Liab, less Current Portion	51,854	51,854	76,616	104,275
Capital Lease, less Current Portion	18,493	19,555	-	2,411
Total Long-Term Debt	<u>5,153,608</u>	<u>5,153,868</u>	<u>5,336,666</u>	<u>5,534,328</u>
Total Liabilities	5,833,912	5,922,304	6,020,879	6,201,330
NET ASSETS				
Unrestricted, Designated	205,690	186,099	50,118	50,118
Unrestricted, Undesignated	2,136,488	2,144,556	2,146,301	2,087,465
Total Unrestricted	<u>2,342,178</u>	<u>2,330,655</u>	<u>2,196,419</u>	<u>2,137,583</u>
Temporarily Restricted	30,374	30,374	29,487	40,054
Total Net Assets	<u>2,372,552</u>	<u>2,361,029</u>	<u>2,225,906</u>	<u>2,177,637</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 8,206,464</u></u>	<u><u>\$ 8,283,333</u></u>	<u><u>\$ 8,246,785</u></u>	<u><u>\$ 8,378,967</u></u>
Financial Ratios:				
	<u>Proforma (a)</u> <u>FYE 2001</u>			
Debt Service Coverage (x)	1.57	1.67	1.46	1.55
L.T. Debt/Unrestricted Net Assets (x)	2.46	2.29	2.51	2.62
Margin (%)		2.6%	1.3%	2.8%
Current Ratio (x)		1.18	0.74	0.84

(a) Recalculates 2001 audited results to include the impact of this proposed financing.

Financial Discussion:

Despite slight operational losses, FH has maintained profitability through interest earnings and donations.

FH's patient revenues consist of Medi-Cal, Private Pay, and SSI. FH has a high percentage of SSI recipients in residential care and independent living. Although Medi-Cal and SSI payments do not fully cover the cost of patient care, patients are accepted regardless of their ability to pay. Since these operational revenues are insufficient to cover expenses, non-operating revenue sources, primarily interest earnings and donations, allow the organization to remain profitable.

Increases in administrative expenditures over the review period have outpaced the growth in revenues, growing approximately 22% over our review period, compared to 14% growth in revenues. The administrative cost increases in 2001 are primarily due to three staff becoming full-time, and higher public relations costs associated with a new fundraiser. Additionally, beginning in 2000, FH incurred investment fees that had not previously been charged.

Because of the severe shortage of health care staff, particularly nurses, FH has also needed to maintain significant salary increases for its staff as well as sufficient ongoing training opportunities. FH believes that its competitiveness and quality of care is reliant upon retaining a skilled medical staff and FH believes its compensation and training opportunities have aided staff retention. At the same time, FH has kept salary expenses at a level proportionate to its revenue growth, with both increasing approximately 14% from 1999 to 2001.

The interim period results indicate slightly weaker operations than the most recent audited year, with approximately \$11,000 in net income for the first four months versus \$134,000 in net income for 2001. However management expects end of year results to be stronger. The interim period captures the first four months of the year, which historically reflects more unoccupied beds and reduced fundraising. Non-operating revenues should also be significantly stronger since FH typically receives the majority of its contributions in December.

Although the organization is leveraged, the balance sheet is otherwise strong as net assets have remained over \$2 million.

The center is leveraged as denoted by the debt-to-unrestricted-net assets ratio, which has consistently been above 2x over the review period, with the proforma ratio at 2.46x. Nonetheless, the proforma debt service coverage remains adequate at 1.57x, indicating that FH should be able to manage the additional debt obligation.

The balance sheet is otherwise solid with net assets of over \$2 million. Of particular note, cash and cash equivalents have increased more than 125%, growing from \$365,000 in FY 2000 to over \$717,000 FY 2001, largely due to increased fundraising. While accounts receivable declined and accounts payable increased in 2001, these were largely timing issues related to Medi-Cal payment fluctuations and a delay in payment of the group health insurance. Overall, FH's balance sheet remains strong.

Over the years, the center has developed strong community support. FH recently formed a Development Board to raise money for the facility. Their efforts have been successful as demonstrated by the \$174,310 in donations for this project received to date.

UTILIZATION STATISTICS:

<u>Type of Service</u>	Fiscal Year Ending December 31,		
	<u>2001</u> # of Bed Days	<u>2000</u> # of Bed Days	<u>1999</u> # of Bed Days
Nursing			
Private Insurance	10,017	10,524	10,654
Medi-Cal	<u>11,225</u>	<u>10,533</u>	<u>10,499</u>
	21,242	21,057	21,153
Casitas			
Private Insurance	4,371	3,746	3,867
SSI	<u>730</u>	<u>732</u>	<u>730</u>
	5,101	4,478	4,597
Residential			
Private Insurance	13,832	13,415	15,977
SSI	<u>5,759</u>	<u>7,197</u>	<u>6,631</u>
	19,591	20,612	22,608
Apartment/Cottages	23,799	23,913	24,138

IV. ORGANIZATION:

Background: Fellowship Homes, doing business as Casa de Modesto, was formed in 1960 to provide retirement living and health care services for the elderly. The center is on a single campus of 5.8 acres. Three levels of care are provided including senior housing, residential care and skilled nursing. Today, Fellowship Homes has 68 senior housing units, 99 residential care beds, and 59 skilled nursing beds. A brief description of the three levels of care are provided below:

Senior Housing – Tenants residing in the senior housing rental units maintain a totally independent lifestyle. Services provided are of convenience or recreational in nature and include transportation, recreational activities and grounds maintenance. Meals, housekeeping and nursing services are also available for an additional charge.

Residential Care - Residents in this level of care require assistance with daily living activities such as bathing, grooming, and taking medication. Nursing care and personal support is provided for residents who experience difficulty in maintaining totally independent lifestyles. Residents receive three meals per day, housekeeping, and laundry service.

Skilled Nursing - Patients residing in the skilled nursing unit require 24-hour nursing care under the supervision of the patient's physician and specialized dietary care. In addition, many patients require rehabilitation and social services on an ongoing basis.

Licenses: The residential care program and skilled nursing care program are licensed by the Department of Social Services and the Department of Health Services, respectively.

Competition: There are four other facilities within less than 10 miles. Two are convalescent homes, one is a residential care facility, and the other is an assisted-living facility. FH, however, is a complete retirement community providing senior housing, residential care, and skilled nursing care. It is the only multi-level facility in the area that is not-for-profit and provides care for low-income seniors. Professional medical care, including geriatric care, is provided as needed on a 24-hour basis, which is not available in any other senior housing facility in the vicinity.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/01 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
CHFFA, Bond Series 1996 A	\$6,065,000	\$5,305,000	\$5,305,000
Proposed:			
CHFFA HELP II Loan, 2002		<u>N/A</u>	<u>400,000</u>
TOTAL DEBT		<u>\$5,305,000</u>	<u>\$5,705,000</u>

(a) Includes current portion.

VI. SECTION 15438.5 OF THE ACT:

The interest savings resulting from this proposed financing will be transferred to the public via the ability to provide lower rents to residents and patients at the Corporation’s facilities than could otherwise be provided.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Fellowship Homes in an amount not to exceed \$400,000 for a term of 15 years subject to the standard HELP II loan provisions and Cal-Mortgage consent for the Authority’s 2nd lien position.